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Thomas J. Sadowski
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MEMORANDUM

TO: Agency Payroll and Personnel Officers
FROM: OA/Division of Accounting
DATE: December 8, 2006
RE: 2006 Calendar Year End Payroll Processing

This memorandum identifies and explains several important Form W-2, payroll, and deduction processing procedures. Please ensure that all appropriate personnel in your organization are aware of these requirements.

1. All 2006 Check Cancellations Due January 3
In order to produce correct 2006 Form W-2s, Wage and Tax Statements, all Tax Year 2006 payroll check cancellations, including the payrolls dated December 29, 2006, must be received by the Division of Accounting on or before Noon on January 3, 2007. This includes any Zero Check (positive Gross but \$0 net pay) cancellations. **Failure to submit cancellations timely will cause employee Form W-2s to be overstated, requiring manual corrections.**
2. MOSERS Basic Group Term Life Imputed Wage
Employees have Basic Life Insurance coverage equal to their annual salary in effect on July 1 of the previous year. Federal Tax Regulations require that if employees are provided more than \$50,000 of life insurance coverage, additional imputed taxable income must be reported and OASDI/Medicare taxes withheld.

MOSERS will send an update of enrollees to the Office of Administration and we will update the SAMII HR system in January. Since imputed wage is based upon the salary rate of the preceding July for existing employees, any increases to salary during the year do not need to be updated for imputed wages. Any **new** employees that meet the \$50,000 wage criteria must have the GTLIF added at the agency level at the time of hire. For questions about the IRS rates and the GTLIF please see the SAM II HR web site at <http://www.mo.gov/mo/samii/hr/bulletins/jdlifeinsurance.pdf>.

3. MOSERS Optional Life Insurance

Employee optional life insurance premiums for January 2007 may be adjusted due to an increase/decrease in the premium rate; a change in annual salary; a change in age bracket; a change in coverage election; or a combination of these reasons.

Changes to the optional life insurance premiums will be automatically adjusted in SAM II HR from information received from MOSERS. Since these premiums are paid concurrent with the pay period, the employees' January 31, 2007 paycheck will reflect the new premium amount. After-tax premiums and premium changes for dependent spouse coverage will be automatically adjusted. Premiums for dependent child(ren) coverage will not change. Agencies will need to enter deduction transactions for employees who add or cancel dependent child(ren) coverage.

4. Missouri Consolidated Health Care Plan (Health, Dental, Vision)

Employees enrolled in the MCHCP health, dental, and vision plans for 2007 from the Open Enrollment period will have their premium changes automatically adjusted in SAM II HR by the Office of Administration from information received from MCHCP and the Cafeteria Plan. Since health insurance premiums are paid one pay period in advance, the December 29, 2006 paychecks will reflect the new health insurance premium amount for January 1-15, 2007 coverage.

Employees enrolled in the Health Care deduction under the Cafeteria Plan in **2006** will be automatically enrolled in the Health Care deduction for Cafeteria Plan for the December 29, 2006 deduction with ENRLs dates 12/1/06 and expired 12/15/06. Employees enrolled in the Health Care deduction for **2007** will be automatically enrolled in the appropriate Cafeteria or non-Cafeteria Plan code with ENRLs dated **12/16/06 and expiring 11/30/07**. A report can be requested from the Cafeteria Plan (ASI) named the "Positive Enrollment Report" for 2007. Agencies must request this report from ASI if you want a total enrollment listing.

Unlike health insurance, MCHCP dental and vision plan premiums are withheld on the January 16, 2007 check in payment of coverage for January 1-15. Therefore, dental and vision premiums will be automatically adjusted by Office of Administration on the January 16, 2007 payroll check for January coverage. The deduction should have an effective date of 12/16/06 with the expiration date of 12/15/07.

With the implementation of *e-MCHCP* for 2007, all deduction changes will be done through an automated process in coordination with MCHCP, ASI, and OA. Refund requests will no longer be necessary since MCHCP will monitor individual overpayments and process refunds automatically. Deduction types and plans will now be generic codes in SAMII HR and will only denote Health, Dental, and Vision deductions without showing the level of coverage. If employees have questions about their coverage, they should contact MCHCP's Customer Service group at 800-487-0771.

5. Missouri State Employees' Cafeteria Plan

As previously stated, health insurance deductions for 2007 coverage (collected during MCHCP Open Enrollment) will be automatically coded for deduction on the December 29, 2006 paychecks to denote 2006 Cafeteria or non-Cafeteria participation. The 2007 dental and vision plan deductions (collected during MCHCP

Open Enrollment) will be automatically loaded for the January 16, 2007 paychecks by OA. Agencies should enroll NEW employees throughout the year with the proper

year ending expiration dates to prevent erroneous deductions in December and January. (**Health Insurance expires 11/30/07; Dental & Vision expires 12/15/07.**)

Plan administrative fees will be automatically loaded for the 2007 plan year to begin with the January 16, 2007 payroll. Any **new** employees during the remainder of 2006 should be established in SAM II HR with an expiration date of 12/15/06. The administrative fee is a separate and unlinked deduction code. Any **new** employees during 2007 that choose to participate in Cafeteria Plan, should have the ADMIN fee established by the agency with an expiration date of 12/15/07.

Employees must re-enroll in the Flex categories for medical and dependent care expenses each plan year. The 2007 deductions will be loaded automatically by OA to begin with the January 16, 2007 payroll.

6. Voluntary Payroll Deductions

During open enrollment for Cafeteria Plan participation, individuals may elect voluntary payroll deduction products to be pre-taxed. A listing of the qualified vendors can be found at <http://www.mo.gov/mo/cafevendors>.

All authorized participants will be changed from the "1" (non-cafeteria plan) code to the "2" (cafeteria plan) deduction code at the end of December. Payroll/Personnel offices should receive payroll authorization cards from these vendors when employees enroll.

Cafeteria Plan rules apply to voluntary products as well. Employees must meet qualifying "Change in Status" event as described in the plan enrollment document in order to change or drop any product under the Cafeteria Plan. Only NEW employees enrolling at hire may add voluntary products to their Cafeteria Plan mid-year.

7. Missouri State Employee Charitable Campaign

Charitable campaign pledge deductions are effective for one plan year only. Agencies do **not** need to enter deduction transactions for employees participating in the charitable campaign program in 2007. For those employees discontinuing participation in 2007, an expiration date of 12/15/07 must be used. These changes must be processed by January 6, 2007.

8. Form W-2s – Distribution/Returns

Agencies should ensure the ADDR window is complete for each employee that has earned income in 2006 even if the employee is no longer working for the State.

Form W-2s are scheduled to be distributed to all state agencies approximately January 18th. W-2s can be mailed in the window envelope designed for mailing checks. Form W-2s returned to your agency by the Post Office should be forwarded to the Division of Accounting.

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9. City Earnings Tax Refunds

Refund claims must be filed by employees with the applicable city.

10. Federal Form W-4

Employees are required to file a Form W-4, Employee's Withholding Allowance Certificate, on or before the date of employment and when it is determined their tax withholding status has changed.

If an employee in your agency filed a 2006 Form W-4 claiming exemption from withholding, federal regulations state that the "exempt" status is good for one year only and will expire by February 15, 2007. If the employee does not file a new 2007 Form W-4, federal withholding tax must be changed by the agency to be withheld as if the employee is single with zero withholding allowances.

Employees claiming exempt should have 99 allowances entered on the TAX window to accommodate their exempt status.

11. Form W-5, Earned Income Credit Advance Payment Certificate

Form W-5 (Earned Income Credit Advance Payment Certificate) and IRS Publication 596 (Earned Income Credit) explain in detail who can take the Earned Income Tax Credit (EIC).

Employees can claim the EIC on their Form 1040 or 1040A or, if eligible for advance payments, they can choose to receive the credit during the year with their pay. To get advance payments, they will have to complete Form W-5, Earned Income Credit Advance Payment Certificate, which is available from the IRS. Eligible employees who do not file Form W-5 will not receive advance payments, but they can still get the full benefit of the EIC on their annual tax returns.

Under federal regulations, each qualified employee requesting advance EIC payments must complete a new Form W-5 each calendar year. A Form W-5 used for 2006 may not be used for calendar year 2007.

Refer to Policies and Procedures, Employee Benefits Deduction, Entering/Modifying Income Tax Deductions. There is no automatic expiration of EIC. Agencies must Effective Date the EIC information on the Employee Tax Parameters (TAX) window. A listing of 2006 EIC recipients can be obtained from the HR Data Warehouse.

12. Standard Mileage Rate for Reporting Automobile Commuting Use Value

For 2006, the standard mileage deduction rate set by IRS for the business use of an automobile is 44.5 cents per mile. Those employees using the vehicle cents-per-mile method of reporting auto fringe benefits must have their 2006 automobile commute value calculated using the 44.5 cents per mile rate.

A separate memo regarding Reporting State Vehicle Use will be published in February 2007.

Refer to SAM II/HR Imputed Wages (Agency) L3, Automobile Commute Procedures for instructions on how to report auto commute use values.

13. How to Order Forms

State agencies may procure 2007 Federal Forms W-4 and W-5 by contacting a local IRS office or by calling the IRS toll free at 800-829-3676. Forms will be shipped free of charge. They will also be available on their web site at <http://www.irs.gov>.

The MO W-4, Missouri Withholding Allowance Certificate, may be ordered by calling the Missouri Department of Revenue at 800-877-6881. It will also be available on their web site at <http://www.dor.mo.gov/tax/forms>, or by writing to:

Missouri Department of Revenue
Division of Taxation and Collection
P.O. Box 3022
Jefferson City, MO 65105-3022

14. Copies of Federal Form W-4 to OA

Due to IRS regulation changes, we are no longer required to submit Form W-4s that claim more than 10 allowances or claiming exempt status. Therefore, there is no need to forward Form W-4s to OA/Accounting. The IRS will contact OA if any W-4s are needed for review, so agencies should retain all originals in the employee personnel file should we receive such a request.

15. Copies of MO W-4 to Missouri Department of Revenue – New Hire Reporting

These forms are no longer required to be sent to Dept of Revenue. We have coordinated a system reporting tool from SAMII HR to meet their needs.

16. 2007 Social Security and Medicare Wage Bases and Tax Rates

The Social Security (OASDI) wage base for 2007 will be \$97,500, an increase over the 2006 base of \$94,200. This increase will become effective for wages paid on or after January 1, 2007. There is no limit on the wages subject to the Medicare tax.

The employer and employee tax rate of 7.65%, which is the combined OASDI rate of 6.2% for wages up to \$97,500 and the Medicare rate of 1.45% for all wages paid will remain the same for 2007.

17. Federal and State Income Tax Withholding Modifications for 2007

For 2007, the federal individual income tax brackets, the federal standard deductions, and the federal personal exemption value may be indexed for inflation.

Should this occur, the formula used for calculation of Missouri withholding tax will also be revised effective January 1, 2007 to reflect changes in the annual standard deduction amounts and the withholding allowances.

18. Educational/Tuition Reimbursements

Educational reimbursements under \$5,250 per calendar year, including graduate level courses, are exempt from reporting. See Policy & Procedure "Deductions & Benefits Agency/Reportable or Non Reportable Fringe Benefits/Educational Reimbursements." Also IRS Publications 508-Tax Benefits for Work-Related Education or 520-Scholarships and Fellowships.

19. Moving Allowances

Agencies should ensure that any moving expense paid in 2006 is entered in SAMII HR before December 20, 2006 for proper withholding to occur. For questions on Qualified and Non Qualified Moving Expenses, see IRS Publication 521.

20. Other Imputed Wages

Agencies should ensure that all imputed wages are entered into the system prior to the final payroll run for December 2006. Imputed wages require OASDI/Medicare withholding which should be processed within a paycycle for proper calculations.

If you have questions about the information in this memo, please contact your Agency's Central HR/Payroll Officer to route questions to the correct OA contacts.